

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury
Director, Exempt Organizations

Release Number: **201241013**
Release Date: 10/12/2012
Date: July 16, 2012

Contact Person:
Identification Number:
Telephone Number:
Employer Identification Number:
Uniform Issue List Number:
4945.04-04

Legend:

B= Scholarship Management Company
C= Scholarship Program
D = Employer
b = percentage
c = pay level
d = number of scholarships
g = dollar amount

Dear

This is in reference to your letter of January 23, 2012, requesting advance approval of your employer-related grant-making program under section 4945(g)(1) of the Internal Revenue Code ("Code").

Our records indicate that you were recognized as exempt from federal income tax under section 501(c)(3) of the Code and that you are classified as a private foundation as defined in section 509(a).

Your letter indicates that you will operate a grant-making program called C.

The information submitted indicates that grants funded by you will be administered, supervised, and paid out by B. B is knowledgeable in the education field and has the background and knowledge to properly evaluate the potential of applicants.

You will fund scholarships for the children of the employees of D. To be eligible for a scholarship, applicants must be dependent children, age 26 and under, of full- or part-time D employees (including retired and deceased employees) who have a minimum of three years' employment with D as of the application deadline date. Children of employees at a pay level of grade c or above are ineligible. Applicants must also be high school seniors who plan to enroll for the first time or students who are already

enrolled in a full-time undergraduate course of study at an accredited two- or four-year college or university or vocational-technical school for the entire academic year. No employees of B (and affiliates), or any relatives of your officers and directors are eligible to receive a scholarship distribution.

You will be responsible for (a) publicizing the availability of C and making the application materials available, (b) verifying eligibility of recipients, (c) reviewing annual reports provided by B regarding administration of C, (d) investigating diversions of funds from their intended purpose, and (e) taking all reasonable and appropriate steps to recover diverted funds, if any.

B will (a) receive, acknowledge, and process all applications, (b) evaluate applicants, (c) select and notify recipients for awards, (d) notify non-recipients, (e) confirm enrollment in an approved educational institution, (f) keep permanent records of the meetings and actions of the selection committee, (g) account for all funds under the control of the selection committee, (h) make payment of the award, and (i) report at least annually to you regarding the administration of the program.

Recipients are determined solely by B utilizing selection criteria you provided whereby each candidate is evaluated based on the following: the consideration of past academic performance and future potential, unusual personal or family circumstances, leadership and participation in school and community activities, work experience, statement of career and educational aspirations and goals, and an outside appraisal. Financial need will not be considered. There shall be preference that no less than b percent of scholarship awards will be designated for "first generation" college applicants, where "first generation" is defined as students whose parents never enrolled in postsecondary education.

In the initial year, you will award up to d scholarships of g dollars each. Thereafter, your board of directors shall determine the number of scholarships to be provided each year, provided, however that you shall not increase the number of scholarships from the number of recipients chosen by the selection committee. In addition, the number of new grants in any year will not exceed 25% of the number of employees' children who: (i) were eligible; (ii) were applicants for such grants; and (iii) were considered by the selection committee in selecting the recipients of grants in that year.

Scholarships will be awarded solely in the order recommended by the B selection committee. Public announcement of C scholarships will be made either by B selection committee or by you. All scholarships are in the form of absolute grants payable directly to the recipient. Grants may only be used to pay "qualified tuition and related expenses". All scholarships are non-renewable, but recipients may reapply for awards in consecutive years as long as they meet the edibility requirements. All scholarships will be awarded on an objective and nondiscriminatory basis.

The scholarships will not be used as a means of inducement to recruit employees for the company nor will a grant be terminated if the employee leaves the company. If a

scholarship is awarded and the recipient applies for additional scholarships to continue studies, the recipient may not be considered ineligible for a subsequent scholarship simply because that individual or the individual's parent is no longer employed by D. Scholarships will only be awarded to students that plan to enroll in an institution that meets the requirements of section 170(b)(1)(A)(ii) of the Code. When a scholarship is awarded, there is no requirement, condition, or suggestion, express or implied, that the recipient's parent is expected to render future employment services, or be available for such employment to D, any subsidiaries of D, or you.

The recipient will not be restricted in his/her course of study. B will supply statistical information on applications received and grants made, which will enable you to maintain the records required by Rev. Proc. 76-47, 1976-2 C.B. 670. You will ensure compliance with the percentage tests under section 4.08 of Rev. Proc. 76-47 in the aggregate with respect to your other scholarship programs available to the same individuals.

Section 4945 of the Code provides for the imposition of taxes on each taxable expenditure of a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 4945(g)(1) of the Code provides that section 4945(d)(3) shall not apply to an individual grant awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance by the Secretary, if it is demonstrated to the satisfaction of the Secretary that the grant constitutes a scholarship or fellowship grant which is subject to the provisions of section 117(a) and is to be used for study at an educational institution described in section 170(b)(1)(A)(ii).

Revenue Ruling 81-217, 1981-2 C.B. 217, describes a situation involving a private foundation making grants to an organization that is not a private foundation to provide scholarships only to children of a particular employer. The organization that is not a private foundation evaluates the students according to its own criteria, including student performance on a qualifying examination. Since grant funds are distributed only to children of employees of a particular company, students who receive scholarships are not selected "completely independently" of the grantor. Accordingly, any such scholarships awarded and paid after March 8, 1982, are considered to be individual grants under section 4945(d)(3), for which advance approval of grant procedures are required under section 4945(g).

Rev. Proc. 76-47, 1976-2 C.B. 670, sets forth guidelines for a private foundation conducting an employer related grant program to obtain advance approval of its procedures for conducting such a program under section 4945(g) of the Code. Sections 4.01 through 4.07 set forth seven conditions which a private foundation must meet in order to obtain advance approval of its procedures under section 4945(g) of the Code.

Section 4.08 provides that a private foundation which makes scholarship awards to children of employees of a company, or to the employees themselves will meet this test if it limits these grants to 25% of all eligible applicants or 10% of all those shown to be eligible in any given year. Renewals of grants awarded in prior years will not be considered in determining the number of grants awarded in a current year.

Based upon the information submitted, and assuming your program will be conducted as proposed, with a view to providing objectivity and nondiscrimination in the awarding of scholarship grants, we rule that your grants to B for the awarding of scholarship grants comply with the requirements of section 4945(g)(1) of the Code. Expenditures made in accordance with these procedures will not constitute "taxable expenditures" within the meaning of section 4945(d)(3) of the Code, and as such are eligible for the exclusion from income provided for in section 117(a) of the Code to the extent that such grants are actually used for qualified tuition and related expenses within the meaning of section 117(b)(2) of the Code.

This ruling is conditioned on the understanding that there will be no material changes in the facts upon which it is based. It is further conditioned on the understanding that no grants will be awarded to your organization's creators, officers, directors, trustees, or members of the selection committee, or for a purpose inconsistent with the purposes described in section 170(c)(2)(B) of the Code.

The approval of your grant-making procedures is a one time approval of your system of standards and procedures for selecting recipients of grants that meet the requirements of section 4945(g)(1) of the Code. Thus, approval will apply to succeeding grant programs only as long as the standards and procedures under which they are conducted do not differ materially from those described in your request.

This ruling will be made available for public inspection under section 6110 of the Code after certain deletions of identifying information are made. For details, see enclosed Notice 437 *Notice of Intention to Disclose*. A copy of this ruling with deletions, that we intend to make available for public inspection, is attached to Notice 437. If you disagree with our proposed deletions, you should follow the instructions in Notice 437.

This ruling is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

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If you have any questions about this ruling, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Holly Paz
Director of Exempt Organizations
Rulings and Agreements